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C O N F I D E N T I A L SECTION 01 OF 03 CANBERRA 001123

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SUBJECT: RUDD GOVERNMENT REPORT CARD 2009

Classified By: Acting Political/Economic Counselor Forest Yang. Reason  
s 1.4 (b/d)

¶1. (C) SUMMARY: The Rudd government remained politically dominant in 2009, largely on the back of better than expected economic conditions, Rudd's enduring high popularity, government unity, and a dysfunctional opposition. Foreign Minister Smith stepped out of Rudd's shadow and the resignation of Joel Fitzgibbon as Defense Minister proved to be a blessing for the government. Support for the U.S. Alliance, and the mission in Afghanistan, remained strong. The relationship with China is recovering from tensions present earlier in the year. Rudd continued his enthusiastic approach to "middle power diplomacy;" possibly his proudest achievement was the elevation of the role of the G20. However, Rudd's big first term reform - legislating for an Emissions Trading Scheme (ETS) - is in trouble. END SUMMARY.

"IT'S THE ECONOMY, STUPID"

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¶2. (C) Underpinning the government's popularity was the resilience of the economy due to continuing global demand for Australian resources and expansionary fiscal and monetary policies. Inheriting a strong fiscal position, the Rudd government in 2009 continued its "stimulus" to firewall the economy against the global recession. The Opposition was scathing of the government's second stimulus package, announced in February, pointing to rising government debt and questioning whether it would work. The government's disciplined messaging focused on jobs and nation building. In June, the government could barely contain its glee when the March quarter National Accounts showed Australia had avoided a technical recession. The Australian Labour Party (ALP)'s most senior strategist - ALP national Secretary Karl Bitar - told us this was extremely significant given the political importance of economic management; he said it was a devastating blow to the Opposition's critique.

TREASURER SWAN'S STOCKS RISE

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¶3. (C) Sidestepping a recession was a triumph for Treasurer Wayne Swan, who strongly argued for the stimulus in Cabinet. Throughout 2008, Swan appeared uncertain in his portfolio, was ridiculed by the Opposition and labeled a weak link by much of the press gallery. He was unfavorably compared to Deputy Prime Minister Julia Gillard and Finance Minister Lindsay Tanner. However, Swan's confidence and performance improved in 2009, largely due to better than expected key economic indicators. Of the "gang of four" - Rudd, Gillard, Tanner and Swan - involved in major economic decision making, Rudd has the most affinity with Swan.

SMITH THE QUIET ACHIEVER

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¶4. (C) Foreign Minister Stephen Smith in 2008 was widely regarded as having little power because of Rudd's interest in

the portfolio and centralizing style. However, Smith has carefully avoided mistakes and has gradually stepped out of Rudd's shadow, indicating Rudd's growing confidence in his judgment. Arguably, the defining point of Smith's year was on August 19 when he counter-attacked Opposition claims the Rudd government had bungled the China relationship. This followed China's failed bid to increase its stake in mining giant Rio Tinto; the detention of an Australian mining executive; the Defense White Paper that took a hawkish approach to China; the granting of a visa to a Uighur activist; and China pulling out of the Pacific Islands Forum.

**¶5.** (C) Armed with the massive Gorgon LNG deal signed with Q5. (C) Armed with the massive Gorgon LNG deal signed with China the previous day, the phlegmatic Smith strongly debunked the Opposition's arguments, undermining the credibility of the Shadow Foreign Minister Julie Bishop, who was leading the charge against him. Since then Australia's relationship with China has improved, in no small part due to Smith's quiet, patient style. Similarly, in October, Smith effectively defended the government's border protection changes during the stand-off with Indonesia over 78 asylum seekers. On both issues, Smith made more coherent and persuasive cases than the Prime Minister.

FITZGIBBON DUMPED

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**¶6.** (SBU) The Rudd government's first ministerial casualty occurred on June 4, when Defence Minister Joel Fitzgibbon resigned for breaching the Prime Minister's code of conduct. This turned out to be a blessing for the government as the experienced John Faulkner - who Rudd persuaded to take the

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portfolio - has mended fences with the Defense Department and is generally regarded as more competent than Fitzgibbon. The Fitzgibbon "scandal" had no impact the government's popularity. Government contacts are pleasantly surprised at the lack of Ministerial sackings, comparing this to the first term of the Howard government when several ministers were forced to resign.

RISING STARS

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**¶7.** (C) Fitzgibbon's departure enabled Rudd to appoint rising stars Mark Butler, Richard Marles and Jason Clare as parliamentary secretaries. Another rising star, Chris Bowen, was promoted into the Cabinet despite overseeing the much-ridiculed "Fuelwatch" and "Grocerywatch" schemes. Labor Right factional powerbroker Mark Arbib - close to the Prime Minister - was rewarded with a ministry despite his inexperience. Government contacts told us Faulkner made taking the job conditional on the impressive Greg Combet being appointed his junior minister.

GILLARD'S STAR FALLS SLIGHTLY

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**¶8.** (C) Deputy Prime Minister Julia Gillard was a media darling in 2008, however the rose-colored glasses were lowered in 2009. Gillard was under increasing scrutiny in her mega-portfolio which includes employment, workplace relations and education. There was a budget blowout in the cost of the school infrastructure funding, and some unions are using her industrial relations changes to pursue excessive demands. Nevertheless, she remains Rudd's clear heir apparent. Colleagues continue to be in awe of her mastery of detail and confident performances.

RUDD POWERFUL, BUT COURTS FACTIONS

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**¶9.** (C) Rudd has unprecedeted power for a Labor leader; one MP told us he had never seen a Labor Caucus as subservient to

its leader, noting Rudd's control over promotions. Another told us she was surprised at marginal seat holders' acquiescence on the ETS. However, powerbrokers confide the factions will assert themselves when Rudd's popularity wanes.

Possibly aware of this, Rudd in 2009 further courted New South Wales factional heavyweights Anthony Albanese (New South Wales Left) and Mark Arbib (New South Wales Right) and elevated Senator Joe Ludwig (Queensland Right - Swan's faction) to a more senior position in Cabinet. Ludwig is the son of powerful Queensland Right union official Bill Ludwig. One theory is that Rudd is developing a "praetorian guard" based on the historically powerful New South Wales Right to head off any challenge from Gillard; that it was no accident that Rudd promoted Arbib, Bowen and Clare (all from the New South Wales Right). Bitar, who is close to Arbib and succeeded him as New South Wales General Secretary, became ALP National Secretary in late 2008.

#### RISE OF ABBOTT; RUDD'S MAJOR REFORMS STALLED

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¶10. (C) Tony Abbott's victory over Malcolm Turnbull for the Liberal leadership on December 1 shattered the likelihood of an emissions trading scheme being legislated by the end of the year, and probably for the remainder of this parliament. Prior to the coup against Turnbull, conventional wisdom was that Turnbull would survive long enough to ensure sufficient Liberal support for the passage of Rudd's signature first term reform. Turnbull believed in an ETS and warned his colleagues an early election trigger on this issue would be "catastrophic." The media's focus over the year on dissent in Coalition ranks, and widespread confidence the ETS would pass, took pressure off Rudd to sell the scheme to the public. With Abbott intent on running a scare campaign on the issue, Rudd now has go back to the public to build support for a renewed ETS early in 2010. Rudd will seriously contemplate calling a Double Dissolution election (for only the seventh time in Australia's history) if the deal he offered Turnbull on emissions trading is rejected in February and possibly again in May. (Note: a Double Dissolution election can be held as late as October and a "normal election" is expected September-November 2010.)

¶11. (C) Another area Abbott, a former health minister, will push the government on is the Rudd's perceived lack of progress in reforming state-run hospitals. Rudd pledged during the last election that the "buck will stop with me" and threatened a federal take over of hospitals if the states did not upgrade their performance. Abbott, who is sympathetic to greater federal control, is portraying Rudd as

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obsessed with bureaucracy and process, and lacking the will to confront state Labor governments.

#### SUPPORT FOR U.S. REMAINS STRONG

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¶12. (C) Support for U.S. foreign policy, including the mission in Afghanistan, remained strong within the Labor caucus. Historically, foreign policy symbolized the divide between Labor's Left and Right factions. However, since the end of the Cold War distinctions have blurred, evidenced by the right leaning Rudd's cultivation of Faulkner and Combet, both from the Left. There were no grumblings in Caucus over the decision in April to boost the number of troops in Afghanistan by 40 percent. The unanimous view is that the U.S. Alliance remains the foundation of Australia's security.

#### RUDD THE FOREIGN POLICY WONK

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¶13. (C) In 2009, Rudd zealously pursued his "creative middle power diplomacy," assiduously engaging with international leaders in pursuit of new global architectures. Possibly his

proudest moment as Prime Minister came in September when the role the G20 was elevated. Rudd devoted significant energy to this, particularly in getting the United States on board. Ironically, the former diplomat Rudd has not boosted resources for the Department of Foreign Affairs and Trade (despite complaining while in Opposition) and has downgraded its influence in decision making. Former Ambassador to the U.S. Dennis Richardson has returned to take up leadership of DFAT, and is expected to push strongly for more resources.

¶14. (C) COMMENT: After two years in office, questions are being asked about the Rudd government's appetite for making tough decisions. Rudd will be scrutinized in 2010, accused by some of over-promising and under-delivering, particularly on health care issues. The Opposition will highlight Rudd's penchant for lengthy reviews and overseas trips and portray the election as a contest between "process man" Rudd versus "act))yplain the ETS and undermine Abbott's credibility on several fronts, while reducing voter backlash over an "early election." END COMMENT.